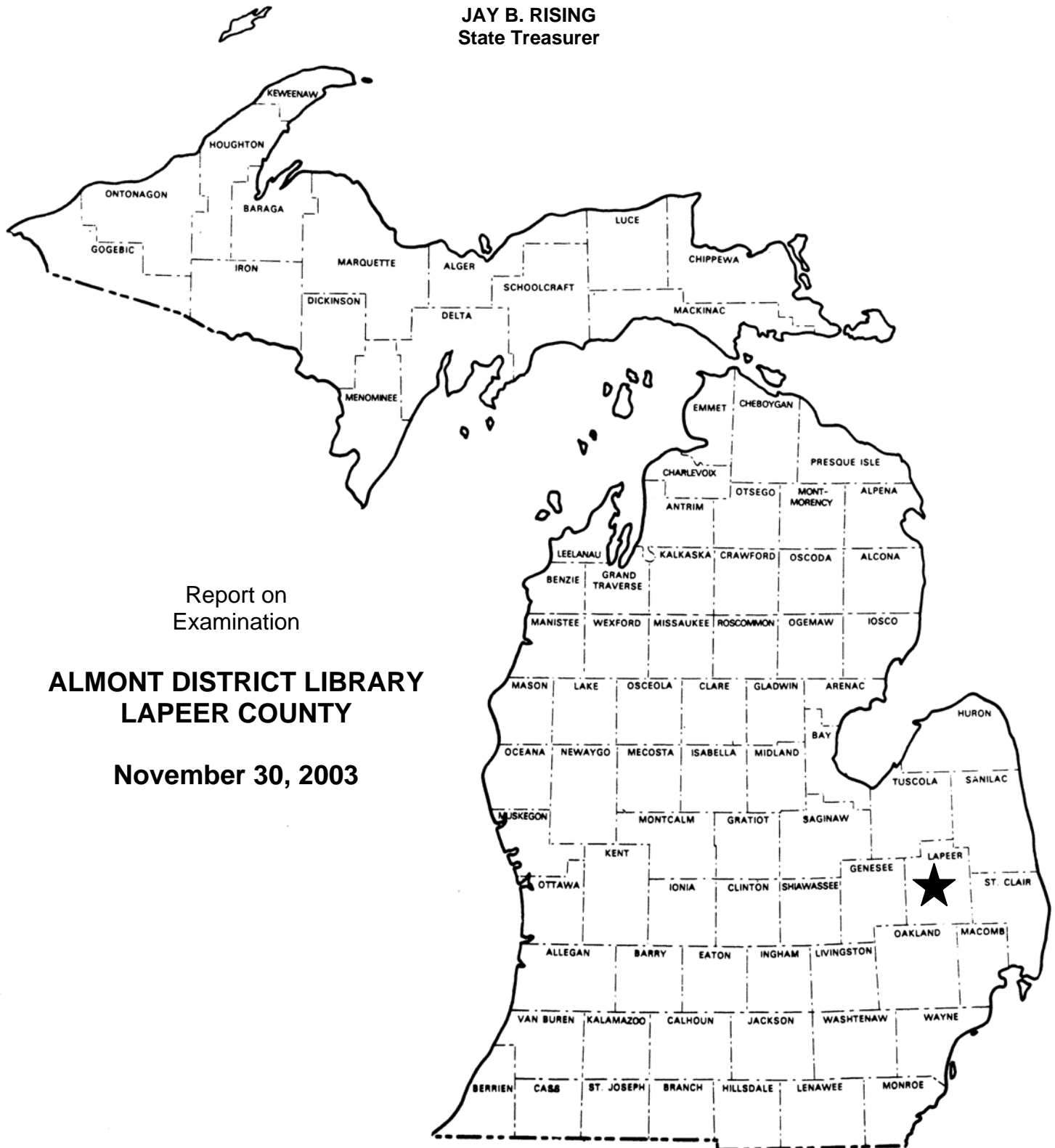


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Local Audit and Finance Division
Bureau of Local Government Services

ALMONT DISTRICT LIBRARY

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 6, 2005

Board of Trustees
Almont District Library
213 West St. Clair
P.O. Box 517
Almont, Michigan 48003

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the Almont District Library, as of and for the year ended November 30, 2003 as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Almont District Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects the financial position of Almont District Library at November 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated July 6, 2005 on our consideration of the Almont District Library's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

We conducted our audit for the purpose of forming an opinion on the financial statements, taken as a whole. The supplementary data listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of Almont District Library. Such

Almont District Library

July 6, 2005

Page 2

information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALMONT DISTRICT LIBRARY

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**ALMONT DISTRICT LIBRARY
BALANCE SHEET
November 30, 2003**

EXHIBIT A

	<u>GOVERNMENTAL FUND TYPE</u>	<u>ACCOUNT GROUP</u>	
	Special Revenue	Long- Term Debt	Total (Memorandum Only)
<u>ASSETS</u>			
Cash	\$ 220,943		\$ 220,943
Amount to be Provided for Payment of Long-Term Debt		\$ 7,448	7,448
Total Assets	<u>\$ 220,943</u>	<u>\$ 7,448</u>	<u>\$ 228,391</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$ 3,506		\$ 3,506
Accrued Wages Payable	4,654		4,654
Installment Purchase Agreement		\$ 7,448	7,448
Total Liabilities	<u>8,160</u>	<u>7,448</u>	<u>15,608</u>
Fund Equities			
Fund Balance			
Designated for Technology	14,632		14,632
Designated for Genealogy	5,441		5,441
Designated for Building	23,057		23,057
Unreserved and Undesignated	<u>169,653</u>		<u>169,653</u>
Total Fund Equities	<u>212,783</u>	<u>-</u>	<u>212,783</u>
Total Liabilities and Fund Equities	<u>\$ 220,943</u>	<u>\$ 7,448</u>	<u>\$ 228,391</u>

The Notes to the Financial Statements are an integral part of this statement.

**ALMONT DISTRICT LIBRARY
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCE--ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended November 30, 2003**

EXHIBIT B

	GOVERNMENTAL FUND TYPES
	<u>Special Revenue</u>
Revenues	
Taxes	\$ 247,352
State Grants	5,015
Charges for Services	44,981
Fines and Forfeits	29,439
Interest	3,101
Other Revenue	<u>3,153</u>
Total Revenue	<u>333,041</u>
Expenditures	
Current	
Recreation and Cultural	260,459
Capital Outlay	61,742
Debt Service	
Principal	2,912
Interest	<u>712</u>
Total Expenditures	<u>325,825</u>
Excess of Revenues Over (Under)	
Expenditures	<u>7,216</u>
Fund Balance--December 1, 2002	<u>205,567</u>
Fund Balance--November 30, 2003	<u><u>\$ 212,783</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**ALMONT DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL--SPECIAL REVENUE FUND
For the Fiscal Year Ended November 30, 2003**

EXHIBIT C

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 240,250	\$ 247,352	\$ 7,102
State Grants	4,250	5,015	765
Charges for Services	42,000	44,981	2,981
Fines and Forfeits	28,000	29,439	1,439
Interest	3,000	3,101	101
Other Revenue	500	3,153	2,653
Total Revenue	318,000	333,041	15,041
Expenditures			
Current			
Recreation and Cultural	263,800	260,459	3,341
Capital Outlay	68,500	61,742	6,758
Debt Service			
Principal	2,950	2,912	38
Interest	750	712	38
Total Expenditures	336,000	325,825	10,175
Excess of Revenues Over (Under) Expenditures	(18,000)	7,216	25,216
Fund Balance--December 1, 2002	205,567	205,567	-
Fund Balance--November 30, 2003	\$ 187,567	\$ 212,783	\$ 25,216

The Notes to the Financial Statements are an integral part of this statement.

ALMONT DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

Almont District Library is a district library as authorized by Public Act 24 of 1989. The District Library is governed by a board consisting of the president, vice president, secretary, treasurer and two trustees. The district library provides services primarily to the Village of Almont and Almont Township.

The criteria established by the generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The District Library is the primary government and there are no other component units that should be reported.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accounts of the District Library are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The funds, types of funds and groups of accounts conform to those recommended by the Michigan Department of Treasury's Uniform Chart of Accounts.

The financial activities of the District Library are recorded in separate funds and accounts groups, categorized as follows:

GOVERNMENTAL FUNDS

Special Revenue Fund

Special revenue funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, fines and forfeits and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The District Library's revenues are derived primarily from property taxes, State revenue sharing distributions and penal fines.

ALMONT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the District Library conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds

The governmental fund type (Special Revenue Fund and the Capital Project Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institutions, to the interest-bearing account.

Taxes Receivable--Current Levy

The County of Lapeer and the Township of Almont property tax is levied each December 1st based on the State taxable valuation of property located in the county as of the preceding December 31st.

The Almont District Library 2002 ad valorem tax was levied and collectible on December 1, 2002. It is the policy of the library to recognize revenue from the current tax levy in the 2002/2003 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

The 2002 taxable valuation of Lapeer County property amounted to \$173,618,097 on which ad valorem taxes of 0.8470 mills for the County and .5000 mills for the township were levied in the amount of \$147,055 and \$86,809, respectively, for the library.

ALMONT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

The accounting policies of Almont District Library as they relate to fixed assets are not in accordance with accounting principles generally accepted in the United States of America, in that the general fixed assets are not recorded. Fixed asset purchases of the library's governmental funds are recorded as capital outlay expenditures at the time of purchase and are required by generally accepted accounting principles to be accounted for in the general fixed assets account group. No depreciation is recorded for these general fixed assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--LEGAL COMPLIANCE

Budgets and Budgetary Accounting

The annual budget is prepared by the District Library and submitted to the District Library Board at the annual public budget hearing. All subsequent amendments to the budget are approved by the District Library Board. The District Library's Special Revenue Fund is under formal budgetary control for expenditures only. The budget has been adopted on a line-item basis. Budgeted expenditures include any authorized amendments to the original budget as adopted. The expenditure budget is prepared on the modified accrual basis of accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, Section 14 (1), as amended, requires the adoption of a balanced budget as well as budget amendments as needed to prevent actual expenditures from exceeding amounts appropriated.

The District Library has not complied with Section 14 (1) of Public Act 2 of 1968, as amended. As detailed in Exhibit D, operating fund expenditures exceeded the amended budget for the following activities:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation and Cultural			
Supplies	\$ 7,000	\$ 7,653	\$ (653)
Building Repair and Maintenance	11,000	12,324	(1,324)
Capital Outlay--Building	40,000	43,168	(3,168)

ALMONT DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Other Areas of Noncompliance

The District Library did not have an audit conducted within 6 months after the end of the fiscal year. MCL 141.424 (3) states: "One copy of the annual financial report required by subsection (1) shall be filed with the state treasurer within 6 months after the end of the fiscal year of the local unit." MCL 141.425 requires a local unit having a population of 4,000 or more to obtain an annual audit of its financial records, accounts, and procedures.

NOTE D--BALANCE SHEET CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the District Library are at one bank in the name of Almont District Library. Michigan Compiled Laws (MCL 129.91), authorizes a local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the District Library's cash deposits are as follows:

<u>Cash</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Deposits		
Insured (FDIC)	\$200,000	\$200,000
Uninsured	<u>20,943</u>	<u>22,453</u>
Total Cash	<u><u>\$220,943</u></u>	<u><u>\$222,453</u></u>

NOTE E--GENERAL FIXED ASSET ACCOUNT GROUP

The District Library has not maintained records of general fixed assets as required by generally accepted accounting principles.

ALMONT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT ACCOUNT GROUP

The long-term debt of Almont District Library may be summarized as follows:

	<u>Balance 12/1/02</u>	<u>Additions (Reduction)</u>	<u>Balance 11/30/03</u>
Installment Lease Agreement IOS Capital, Inc. Ricoh 3506 Copier	<u>\$10,362</u>	<u>\$ (2,912)</u>	<u>\$ 7,450</u>
Total	<u><u>\$10,362</u></u>	<u><u>\$ (2,912)</u></u>	<u><u>\$ 7,450</u></u>

The annual interest and principal requirements of Almont District Library's long-term borrowing may be summarized as follows:

Installment Lease Purchase Agreement--IOS Capital Inc.

The Almont District Library entered into a lease agreement for \$12,400 at 7.875% percent interest on February 27, 2002 from IOS Capital, Inc., for the purpose of leasing a copier. The lease agreement called for 48 monthly payments of principal and interest of \$302. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	\$3,149	\$475	\$3,624
2005	3,407	217	3,624
2006	<u>894</u>	<u>12</u>	<u>906</u>
Total	<u><u>\$7,450</u></u>	<u><u>\$ 704</u></u>	<u><u>\$8,154</u></u>

NOTE G--RISK MANAGEMENT

The District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

ALMONT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE H--POST-EMPLOYMENT BENEFITS

The District Library does not provide post-employment benefits.

NOTE I--DEFERRED COMPENSATION PLAN

The District Library does not provide a deferred compensation plan.

**ALMONT DISTRICT LIBRARY
STATEMENT OF REVENUES BY SOURCE AND STATEMENT OF
EXPENDITURES BY ACTIVITY--BUDGET AND ACTUAL
SPECIAL REVENUE FUND**

EXHIBIT D

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes			
Current	\$ 240,000	\$ 246,367	\$ 6,367
Delinquent Personal	250	237	(13)
Industrial Facilities	-	748	748
State Grants			
State Aid	4,250	5,015	765
Charges for Services	42,000	44,981	2,981
Fines and Forfeits			
Penal Fines	28,000	29,439	1,439
Interest and Rentals			
Interest Earned	3,000	3,101	101
Other Revenue			
Other Contributions From Private Sources	500	2,796	2,296
Refunds and Rebates	-	283	283
Other	-	74	74
Total Revenue	318,000	333,041	15,041
Expenditures			
Current			
Recreation and Cultural			
Salaries and Fringes	140,000	139,808	192
Books	24,399	24,124	275
Books--Magazines	2,010	2,010	-
Books--Audio and Video	8,591	8,591	-
Supplies	7,000	7,653	(653)
Professional and Contractual Services	32,300	29,425	2,875
Utilities	26,500	26,193	307
Insurance	9,000	8,815	185
Building Maintenance and Repair	11,000	12,324	(1,324)
Travel	2,000	1,025	975
Memorials	500	103	397
Miscellaneous	500	388	112
Capital Outlay			
General	15,000	8,115	6,885
Technology	13,500	10,459	3,041
Building	40,000	43,168	(3,168)
Debt Service			
Principal	2,950	2,912	38
Interest	750	712	38
Total Expenditures	336,000	325,825	10,175
Excess of Revenues Over (Under) Expenditures	(18,000)	7,216	25,216
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(18,000)	7,216	25,216
Fund Balance--December 1, 2002	205,567	205,567	
Fund Balance--November 30, 2003	\$ 187,567	\$ 212,783	\$ 25,216



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 6, 2005

Board of Trustees
Almont District Library
213 West St. Clair
P.O. Box 517
Almont, Michigan 48003

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Almont District Library, as of and for the year ended November 30, 2003 and have issued our report thereon dated July 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Almont District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are identified in the comments and recommendations section of this report.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Almont District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Almont District Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses, and are identified in the comments and recommendations section of this report.

This report is intended solely for the information of the management, board and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALMONT DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Almont District Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

The library is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

MATERIAL WEAKNESSES

RECEIPTING PROCESS

Director--Issuance and Reconciliation of Receipts for All Revenue Received

Condition: The Library Director has been the only person receiving, recording and reconciling all of the monies received by the library.

Director--Preparation of Receipts

Condition: The library does not include an account classification on its receipts.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

ALMONT DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

1. Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department;
2. Numerically controlled (printer pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections;
3. The use of generic, store-bought receipts is strictly prohibited;
4. "Cash" or "check" as the method of payment must be indicated on the receipt;
5. The receipt must identify the individual receiving payment;
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts;
7. Checks must be restrictively endorsed at the point and time of collection;
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted; and
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

All money must be turned over intact. Intact means that the deposit must include all of the checks and cash received for a specific numerically sequenced receipt group. Any overage and/or shortage amounts should be deposited and recorded separately along with the receipts. All voided receipts should be kept intact and maintained in sequential order along with the other receipts. Strong internal control activities require the maintenance of original source documentation to be kept intact. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, states, in part, that: "if computerized receipts are issued, all receipts' triplicate copies should be printed and retained in numerical order."

Recommendation: We recommend that all library offices, that collect cash, issue receipts immediately and implement the aforementioned procedures. Monthly procedures should include comparing receipts, written for the month, with the receipts register and with bank deposits by an individual other than just the library director.

DISBUREMENTS PROCESS (VENDOR AND PAYROLL CHECKS)

Director--Lack of Account Classification, Administrative Approval

Condition: Invoices prepared by the library do not contain administrative approval nor did they contain an account classification.

Criteria: According to the Uniform Accounting Procedures Manual, appropriate documentation (supporting invoices) must be attached for all disbursements. Invoices should provide evidence that the proper individual has reviewed them and must indicate the account classification.

Recommendation: We recommend that the person reviewing the invoices provide evidence that the invoice has been reviewed and indicate the account classification on the invoice.

ALMONT DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Library Board--Purchasing Policy

Condition: The library does not have a purchasing policy.

Criteria: A system of internal controls over expenditures depends upon a purchasing policy which results in methods for approving and making expenditures which are under the control of a central oversight agency, the library board. A purchasing policy is required to establish guidelines for purchasing functions and procedures.

Cause and Effect: Expenditures may or may not have been made in accordance with the library's best interest. The lack of a written policy makes it difficult to determine the validity of expenditures in the future. Adequate control procedures over expenditures require that procedures for expending library funds be clearly defined and followed by all personnel.

Recommendation: We recommend that the library board give consideration to developing a written purchasing policy that clearly defines the following:

- a) An amount that can be expended without board approval;
- b) The amount of expenditures that require board approval;
- c) Documentation required for all expenditures;
- d) The amount of expenditures that require formal bid procedures; and
- e) The amounts and types of purchases that are required to be capitalized.

Other procedures that could be included are ethical standards, expense reimbursements, requisitions and purchase orders, price quotations, bids, advertising, sealed proposals, public opening, awarding, forms of contracts the library is willing to enter, requests for proposals, emergency purchasing, local supplies preferences, and/or cooperative purchasing.

Developing and implementing a written policy of this nature will not only ensure that expenditures continue to be made in accordance with library policy, it will also serve as criteria and evidence that officials are conducting the business of the library appropriately.

Library Board--General Fixed Assets

Condition: The library does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles.

The library has not adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as an expenditure.

ALMONT DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Criteria: It is the responsibility of the library to update the fixed assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the fixed asset records. Disposals should equal the reductions to the fixed asset records.

Recommendation: We recommend that the library develop a property management system that includes all of the following steps:

- 1) An inventory of all fixed assets owned by the library should be taken and included in the permanent records of the library and updated annually.
- 2) All assets owned by the library should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the library to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the library should keep records on all assets owned by the library which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

- 4) Capital assets that meet the library's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires fixed assets to be included in the financial statements of the library. Compliance with GASB No. 34 is mandated for the library for fiscal year ending November 30, 2006 and after.

ALMONT DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Library Board--Adoption of Library General Appropriation Acts

Condition: The library actual expenditures exceeded the final amended budget for three line items for the fiscal year ending November 30, 2003.

Criteria: MCL 141.438 Section 18 (3) states: "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

Directive: We direct the library to comply with the above statutory budgeting requirements and make budget amendments as needed throughout the year.

Library Board--Electronic Transactions of Public Funds

Condition: Almont District Library electronically transfers funds for payroll withholdings without legal authority.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

ALMONT DISTRICT LIBRARY
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Directive: We direct the library board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Library Board--Annual Audit

Condition: The library has not completed its annual audit since the fiscal year November 30, 1998.

Criteria: MCL 141.427 requires a copy of the audit report and a copy of the report of auditing procedures be filed with the state treasurer within six (6) months after the end of the fiscal year of a local unit for which an audit has been performed.

Directive: We direct the library to have its audit completed within the statutory deadline.